HADLEY'S "ECONOMICS."[1]

THE abundance of systematic works on political economy is apt to exert a deterrent effect upon the economist from competing in this much frequented field; he seeks rather some corner of the science which he may call his own. However, in spite of the ignorant criticisms of literary dilettanti, the dismal science has never progressed faster than within the last few years. Views as to its scope, purpose, and results have undergone rapid transformation, and the comprehensive statement of the science must have changed correspondingly. It is possible that no one man can grasp the whole situation, but it is obviously necessary that compendious re-statements should constantly be made. The profession and the public, therefore, owe a debt of gratitude to the economist who consents to suspend labors directed to the forward movement of the science, in order to put on record his conception of the stage at which it has arrived.

Professor Hadley's book is essentially a product of the times in which we live, and written for these times. While eminently scientific, it is well calculated to take the foremost rank in the great work of putting the popular consciousness in harmony with the present stage of industrial organization. If we may believe that the principal hindrance to industrial and political progress lies in the perverted or half-developed consciousness of the community, it follows that correction of aberrations of the social mind is the duty of the apostle of progress. It is true that every political economy has this purpose ultimately in view, but it is faint praise of this book to say that it comes closer to the people than any of its predecessors. Knowledge can, in

[1] *Economics. An account of the Relations between Private Property and Public Welfare.* By ARTHUR TWINING HADLEY. New York and London: G. P. Putnam's Sons, 1896. 8vo. pp. xi+496.

general, be propagated only from above, downward, through a sort of hierarchy. The disquisitions of the wisest are intelligible only to those removed slightly in degree of wisdom, and so on downwards. This book, however, is so written that any man oi good intelligence will envitably receive those great lessons in normal industrial life in which all economists agree and which are probably true, while to the economist it suggests a depth of research and a breadth of generalization of which the layman can have no suspicion. It is more truly than Roscher's work a book for "students and business men."

While the title, "Economics," is, perhaps, the simplest that could have been given, it is questionable whether it is strictly correct, even in the sense in which the term is used by Professor Marshall. The justification of the title is found in the fact that the author confines himself quite strictly to the economic field, notwithstanding the temptation to wander from it, offered by the method employed. The difference from a strict political economy lies in the fact that the point of view is ethical rather than positive. The statements of economic truth are often short, and sometimes, though rarely, perfunctory. The work is a long argument for the general rightness of what is. Economic life is relieved of its outer shell of accident for the express purpose of approving the normal kernel within. This point of view is essentially popular. The common difficulty of exposition is that the reader stands in need of preliminary training; before he can profitably read a work on political economy, he must be able to distinguish the positive from the ideal; in other words, he must be a scientist first and an economist afterwards. The merit of Professol Hadley's method is that the untrained reader will read intelligently and sympathetically from the start, and will naturally accept economic conclusions as presumptively true until they can be tested by further study. Such a reader would be mystified by the title, "Ethics of Economics," while the postive contents of the book make its actual title more attractive to him and scientifically not indefensible. It may be a question whether the general sociological interest aroused at

the present time is not, despite the asserted positive character of sociology, to lend to all the social sciences an ethical color ing, or whether we are to leave to the positive results already attained the name by which they are currently known, and are to recognize that we are now busy in a new field. The latter course would seem to be more accurate and useful.

Another characteristic that will make this book useful in disseminating economic truth is the employment of the method of evolution. Popular distrust of evolution is disappearing. What remains is not likely to be aroused in the absence of the word, "evolution;" while the actual employment of the method is especially calculated to lead the reader on. The logic of history has its mirror in the human mind; what nature thinks must find a ready response in us. All evolution, however, is not historical, or, if you so prefer it, all differentiation is not evolutionary. There is as truly an evolution from thought to thought and from process to process, as from time to time. We must suppose not only an unbroken procession of events, constituting the web of life, but also an unbroken juxtaposition of categories, constituting its woof. It is at once a merit of popular exposition and a scientific defect that this book does not accept all the instruments of differentiation of economic categories. It does, indeed, accept and use the general method of differentiation of ideas, but rejects the essentially sociological method. which looks upon rent, profit, and cost as categories that may usefully be abstracted from classes of persons. The avoidance of abstraction is a decided gain for the cause of poupular exposition, while the conscious attempt to eliminate the abstractions alluded to does not, in all cases, prevent the adoption of their beneficial conclusions, as will be hereafter explained. While the author's rejection of these methods is the result of conviction, the effect is certainly happy for the purposes of the book. The simple and lucid language employed throughout, and the remarkable success in avoiding the use of technical terms, favor the same end. In the present troublous times, when popular education has made common a half-learning that threatens to

engulf the ship of progress, we must be thankful if here and there a man for the times appears.

The feature which will most aid this book to attain a wide influence outside of professorial circles, and which will at the same time be helpful within those circles, remains to be mentioned. The essential truths of industrial life have hitherto been studied from the points of view of production, consumption, exchange, and distribution. It is something more than tradition that has held economists fast to these categories : they seem to be necessary for scientific investigation. The present book, however, raises the question whether method of exposition may not be competely severed from method of investigation. For here we have no more of the old categories. The book has rather a political than an economic aspect. The subjects of discussion are those of the hustings rather than of the chair. The only titles that remind one of a political economy are Money, Credit, Profits, and Wages. The other and characteristic chapter-headings are Public and Private Wealth, Economic Responsibility, Competition, Speculation, Investment of Capital, Combination of Capital, Machinery and Labor, Co-operation, Protective Legislation, and Government Revenue.

The reader who seeks practical guidance must search through all the different titles of a work on political economy in order to collect all the mandatory or direct results which bear upon his case. The obvious reason for this is that a science is not mandatory but seeks only to establish facts, which may, indeed, form a basis for commands. Those scientific facts are of a permanent nature — not absolutely permanent, perhaps, but sufficiently so to justify the use of the term. The questions, however, which are discussed at the present moment are distinctly temporary ; they cannot be employed as the titles of economic laws, nor as classifications of those laws. They embody, rather, the shifting point of view which the public takes as economic phenomena unfold themselves. We may agree with the historical school that the laws of economics themselves possess different degrees of permanency. We must insist, however, that the popular point of

view is subject to changes differing in time and degree from changes in economic law. While it is true that some popular delusions are as old as the hills, it is fair to assume that the popular classification of economic interests is subject to constant changes. These changes follow the subject matter of political, rather than of economic history. They are different in peace and in war; they are different in agriculture and in manufactures, in new and in old countries, in patriarchal and in capitalistic communities.

A method of exposition calculated to reach the people must adopt the popular classification. By this it is not meant to imply that science does not use popular conceptions as its basis of classification. In fact, the business of a social science is, from one point of view, simply to draw the line between popular conceptions, which are fundamentally correct, but overlap and blur each other. The conceptions chosen by science, however, are not those which, at any one moment, claim the largest share of popular interest. It is these questions of the day that Professor Hadley has skillfully availed himself of for the purpose of exposition. It is not to be denied that the efficacy of his method causes the author to lean towards the doctrines of the extreme historical school in denying the permanency of economic laws; but we can excuse a bias the results of which are found to be so excellent. The method of political economy has not been changed by this book, which could not have been written if a science of political economy did not exist, and which cannot relieve the science of the duty of pursuing its own methods in the future. To abstract the results of science from their proper categories and re-distribute them through the questions of the day is, indeed, a scientific task, and one which has, in the present case, been so skillfully performed as to give bright promise of wide influence and useful results. This book refreshes and stimulates the economist, but does not help his method.

The bane and benefit of idealism have ever accompanied human society. In the middle ages the ideal held complete sway: mediæval art attests that things were not painted as they were. With exploration, invention, and the testing of reli-

gion arose science and realism as the grand correctives of idealism. The duty of correcting the distorted vision of idealism necessarily resulted in an appearance of warfare. While realism has undoubtedly gotten the best of the disputes and has reduced idealism from a position of absolute domination to one of respectful co-operation, it is doubtful whether this victory is sufficiently acknowledged outside of the world of letters. The world of thought has kept up with the times; the world of action, on the contrary, has only a vegetative or mechanical consciousness, and men of action retain some of the hallucinations of their forefathers as to the relation of public and private interests. It is true that the change of sentiment on this subject since the middle ages has been enormous; but it is also true that the increased complication of modern life renders it so delicate that small errors today may cause more injury and suffering than great ones did four or five centuries ago.

For this reason, the need for realistic propaganda is greater than ever, and especially in the industrial field. Socialism is today as dangerous as ever; in fact, the average citizen whose mind has been awakened to its dangers has a feeling that a destructive wave is sweeping over society. While the student of history knows that things are not so bad as that, still he is alive to the possibility of social retrogression, and must greet with pleasure this book which is sure to be a new bulwark against socialism.

By skillful use of the method of historical evolution, an argument for economic individualism has been made, such as has rarely, if ever, been presented to the public. The political programme in the United States sufficiently indicates the need for such a book at the present moment; and the book itself wears the aspect of contemporaneousness in the highest degree. Its argument is so uninterrupted, its parts are so welded together, that it seems to have been written *una incude*,—by the labor of a single day. The nature of the book does not impair its interest for men of science. It is unavoidable that some of the sub-categories adopted by science should continue to be employed

in a work which covers the common ground of economic thought, and Professor Hadley's generalizations will be found suggestive and helpful. He passes from one phase to another with ease and without apparent break of continuity. There are places where he might have made much more extensive use of differentiation, and the impression is produced on the reader that where the cause of individualism is not plainly involved, the author's interest in evolution lags.

The endeavor to present a new political economy catalogued under the titles of current discussion, and treated according to the strict method of historical evolution, has prevented the author from collecting his chapters into books. Nevertheless, the historical method dies out necessarily in the chapters on Money, Credit, Profit, and Wages. In a strict political economy this transition would be recognized by a new grand division of the work. It is a gain in method that Professor Marshall's Principles of Economics treats historical evolution in one book, and absolute differentiation of functions in other books; and the general reader who has followed the dramatic and triumphant march of individualism through six chapters will feel a certain let-down in the succeeding four. Nevertheless, these latter chapters have also appropriate excursions into historical evolution, and, if the reader keep his courage up, he will be rewarded in the succeeding and last four chapters by much of the old swing.

Chapter I, on Public and Private Wealth, brings together in a preliminary discussion those phases of individualism and socialism which force themselves upon the economist today. We are told that private capital is more likely than not to result in public wealth, because, "If men fail to use their capital for things the community needs, they lose money and are eliminated from control of the next period of production." The method of allowing private titles to capital must stand or fall upon its merits, and is not to be defended by any argument that the title is the essential thing, but the material goods, accidental. The labors of Adam Smith have helped the industrial revolution to bring

people over to the true view that trade is a means of public service. The tendency to look upon political economy as an art involves the notion of paternalism, and naturally comes from Germany. An art prescribes methods of trading or living and stops with that; but the statement is made without explanation and would hardly prove instructive to the general reader. The action and reaction in progress, of morals, industry, art, and science are finely portrayed. The socialist is described as one who looks to immediate details; the individualist as one who looks to the ultimate result, the effect on society. This statement of the author is true only as to what might be called the art of socialism and of individualism. It is true that the individualist finds fault with the socialist, and justly, for proposing impracticable changes in details of social life; but the impracticabilty of the socialist is the result of visionary idealism, the injurious effects of which are apparent to the individualist. It is, therefore, a mistake of our author to characterize a socialist as a person occupied with details.

The evolution of animals and of plants is a rivalry of dissimilar types; the evolution of man is a rivalry of similar types. The contest for existence is succeeded by the lust of dominion, which accompanies the organization of the family and of the nation. As the type rises, the scene of contest changes from the physical to the moral world, and the neglect of physical selection thus induced suggests the danger of physical degeneration. A healthy society is one in which the best individuals set the pace. Perhaps the author might have put more stress upon the efficacy of what might be called "subjective evolution." If the advance of the community depends upon sacrifice, that sacrifice must become less and less a destruction *of* the individual, and more and more a destruction *within* the individual. Every brain-worker knows what the cost has been to himself of his own progress. This cost is as truly social as is the total elimination of a weak individual from society. With progress the sphere of activity or, as it were, the center of gravity of sacrifice, is changed from the palpable or physical world to the impalpable or psychic world: those who perished of disease are

now cured by philanthropy; food that we formerly disliked is no longer on our bill of fare, or else our tastes are reformed so that we prefer a homely diet; the *internal* struggle goes on of rectifying unhealthy physical symptoms in order that the mind may be supported in higher psychic struggles. There is, therefore, no reason for supposing that the higher evolution will cause even a physical degeneracy; we must not hesitate to credit every individual sacrifice, however hidden and intangible, to the grand total of social cost (or as Professor Hadley prefers to call it, waste), which makes for progress.

Static and dynamic problems are identified with the deductive and inductive methods respectively, and the relativity of economic and moral truth is clearly stated.

Under the head of Economic Responsibility (Chapter II) is laid the foundation for the point of view which characterizes the book. The exclusive economist is interested simply in the flow of economic goods available for consumption; the popular view is interested much more in the different question of economic head-ship. Since the whole book is taken up with this discussion, we cannot expect to find in this chapter more than the developments of early history, which are well calculated to confirm the general principles of individualism explained previously.

It is admitted that property rights originated in violence, and that the wage-worker of today is the logical descendant of the ancient slave and of the mediæval villein. Now what is the bearing of these facts? Is it, as the socialist says, that property is violence and that the wage-earner is a slave? Certainly not. The actual condition of private possession of goods, which originated in violence, has become, independently of its origin, a utility of peace and industry, a step towards a less gross existence. In a similar way slavery was a first step toward that due subordination and those industrious habits which were to benefit all and make them more truly free.

Progress in the arts gives the primary impulse to progress in civilization. This truth deserves more attention than the author has bestowed upon it. Inventions furnish the indispensable mate-

rial basis for readjustment of the relations of men in industry and in society. Perhaps this was not true of ancient Greece, and will not be true again when the average of mankind shall have been raised to that of the Greeks; but as things go today, the electric motor and the bicycle have more influence in raising the human race towards a psychic condition than the universities.

It is further shown that violence and slavery made peace necessary in order to enjoy the fruits of war. The existence of peace made industry and capital necessary in order to bridge over the periods between the exhaustion of old booty and the acquisition of new. Larger wealth and larger organizations brought in their train large armies, and large standing armies required support. Slavery fell because it could not use capital and support large armies. The emancipation of the serfs in Russia was a military necessity which has not benefited the serfs.

The Malthusian doctrine is well explained in the light of later science. What Malthus really meant was that poverty is a necessary incident in the struggle for existence. In the absence of checks to over-population, poverty is unavoidable. The question is again raised, whether the avoidance of the sacrifice of poverty through the physical prudence of a restricted population may not deteriorate the race. If, as the author assumes, the struggle for existence is actually avoided, we must believe that the dreaded result will follow; but is it not true that with progress the struggle becomes psychic, and that that which was before appropriately a pain has now become equally appropriately a pleasure? The luxury of the martyr in his immolation is the type of progress. Very different is the condition of the society which in avoiding sacrifice of a lower type does not replace it by sacrifices of a higher type. If the current criticism of French childlessness, of which Anglo-Saxon egotism is so fond, is to sustain the charge of degeneracy, it must be shown that *intellectual* sacrifice is declining in France. It may be that the disappearance of sacrifice in one category of life, instead of being a proof of degeneracy is simply symptomatic of increased activity in another category. Moreover, French science, literature, and

art must be criticised according to French, not Anglo-Saxon ideals.

Socialists claim that low birth rate is the result of easy conditions of life. This claim is an arbitrary assumption from the fact that a low birth rate and a high standard of living are always found together. The causal connection is evidently in the opposite direction. The difficult task of showing the true relation between prosperity and density of population is successfully surmounted by our author.

The necessity for sacrifice is thus brought in as an explanation of the evolution of economic responsibility, and this is undoubtedly where it belongs and where it may most effectively be presented to our doubting Thomases. It is quite natural that methods of regulating or avoiding sacrifice should be discussed in the same connection—the workhouse, the allowance system, and poor relief generally.

Among the vast number of utilities that might possibly have been chosen to illustrate industrial evolution, a most judicious selection has been made. The transition is now easy to the highly evolved type of sacrifice and reward incident to progress, known as modern competition, and it is a really skillful stroke by which value in exchange is presented as a result of this historical process. The organization of labor which has been described, results in the production of a surplus. The meaning of a surplus is primarily, not that more value is produced but that a less variety is produced by each producer or group of producers. The result is that the old variety cannot be obtained without an exchange. The result of exchange immediately is to produce values. The fact that ultimately the total production and its variety are vastly increased is entirely aside from the argument as to the source of value. We thus see production planted firmly at the basis of the science. The benefits of increased freedom of production and consumption are accompanied by certain drawbacks that must be frankly considered; free action becomes a system and is extended to those individuals who are not yet sufficiently developed to take a part in it. The test is

whether an institution is of public utility. Free liquor traffic, tenement house nuisance, and prostitution are not blessings of competition. Competition is also imperfect, the producers often having through custom and advertising an undue weight in shaping demand.

By defining a monopoly as a combination of sellers to keep up prices, the author is enabled to treat "corners" under Monopolies in a subsequent chapter.

A diagram illustrates market-prices; but this price is not stated in terms of equilibrium. This is a scientific loss, and also a loss in clearness. If a price is stated as an equilibrium of all the forces of production and of consumption, it becomes easy to analyze those forces according as they are temporary or permanent. It is not to be denied that this distinction is clearly and ably discussed. It is shown that the stock of goods is fixed by changes in investment, while the market supply is fixed by the competition of merchants; but the action and re-action between production and consumption in the formation of marginal utility are stated only in the concrete, to the decided disadvantage of the abstract clearness afforded by the language of equilibrium.

Market-price is stated as the golden mean between the injustice of special bargains, on the one hand, and the tyranny of fixed tariffs, on the other. Especially fine is the demonstration of the automatic action of price in causing the supply to be increased or decreased to suit the demand, and consumption to be decreased or increased to suit the resources of society. The reader is not allowed to avoid the conclusion that historical development has furnished a wonderfully delicate machine of untold benefit to society as a whole, although there are exceptions even to this rule. It is at this point that the beneficial relation between "private property and public welfare" is made most apparent.

The establishing of a long time normal price is hindered by the fact that in agriculture the worst land is apt to set the price while in manufacturing the ablest producer sets it, by the diffi-

culty of assigning proper cost to joint products, and by the interruptions caused by new inventions.

Value is a permanent and positive fact; it is that which a price ought to be if all the uncertainties and accidents of industrial life were removed. Its existence is the result of historical evolution and it is right because it is the highest statement of existing utilities. Nothing better can be shown. Actual value is commerical; socialist value is ideal. The commercial system tends to distribute rewards according to services. The socialist labor doctrine of value would equalize returns in one industry, but would increase the inequality of returns between different industries, because if all labor were rewarded the same in one industry, it would either be rewarded too high or too low, and the inequality thus begun would be propagated through the whole system, and rent would be increased. The Austrian theory, logically carried out, is the commercial one. Professor Hadley might have added that the Austrians do not carry out their theory logically, because they insist that there is somewhere a break in the line of causation between supply and cost of production.

The competitive system having culminated in the highly useful institution of market values, an evolution of personal responsibility has taken place, which deserves still more careful attention because it comes closer to the motives of popular action. This evolution is traced in Chapters IV and V under the titles, Speculation and Investment. The evolutionary predecessor of the investor is the speculator; and here, perhaps, Professor Hadley has benefited by the continental use of the term, "speculation" which does not have the bad meaning attached to it in America.

People who are quite willing to admit the productiveness of those services which change the places of goods, are still inclined to deny that the holding of goods during a period of of time is worthy of reward. On the contrary, the ordinary speculation which impels men to buy cheap in the hope of selling dear, is the very process which causes the equalization of

demand and supply, which was described in the last chapter as the brightest triumph of evolution. Nevertheless, it is true again in this instance, that if we are to apply the vulgar test of the socialists, that an institution is necessarily bad because an old form of it is now inapplicable, we would be compelled to condemn all speculation. Early forms of speculation would be dishonest now. As late as a hundred years ago fine gentlemen were suspected of embarking in buccaneering expeditions. Because early explorers were animated by lust for gold and thirst for blood is hardly a reason why a widow should not buy shares in a mining company ; and yet the socialistic logic, which declares that the wage-earner is a slave, must consistently claim that the widow is a buccaneer. Institutions must be judged by the present utilities of their present forms.

Speculation becomes a regular institution. The dealing in futures, in lumber, in cotton, and in other commodities is an indispensable service. Illegitimate speculation is thoroughly discussed and its evils frankly recognized. Their remedy is found in a characteristic resort to individualism : people must be compelled to speculate with their own capital and thus the economically unfit will be rejected ; but it is not pointed out by what specific regulation this end is to be attained.

The economic statement of the fact that the leadership of labor has been placed by history in the hands of the speculators is, that wages are paid out of capital. The speculator takes the risk : if he fails, it shows that the experiment was a bad one or badly conducted ; if he succeeds, society has something that it wants. The speculative system thus secures for society the necessary variety of experiments, while it relieves it from the cost of long continued errors. If we take into account the great losses borne by speculators, it cannot be claimed that they receive more than they deserve ; the only trouble is, that the capital that they accumulate is not sufficient to bear their losses, and that in times of crises, their mistakes are borne by the whole community.

Investment is simply systematized speculation in which the

element of risk is small, and has a history of its own. The first capital was agricultural, and the first capitalists were farmers. Feudal militarism gave way to industrial speculation. As public quiet and order increased, the regular returns to agricultural industry encouraged a traffic in rents; and the regular purchase of rent-charges encouraged the purchase of incomes without reference to the nature of the security for them. It is true that interest-giving was a previously existing practice. It was, however, rather a matter of luxury or extortion. The rise of capitalism, however, changed the nature of interest to an institution and gave it a beneficent aspect, thus affording another instance of a practice that is bad in one stage of social development becoming good in another through the readjustment of utilities.

The simultaneous growth of capital and of interest soon outgrew the agricultural phase and, with the rise of manufacturing industry, passed over to corporations. It is characteristic that, as the corporation is a little society, it should, as to the rest of the world, assume a personal character, and that the associates should give up theirs. Hence the law, in principle, exempted them from liabilities and relegated creditors to the property of the corporation. The author might have added that it here looks as though individualism had destroyed itself by creating a new impersonal social factor. The teleological significance of this phenomenon, however, seems to be that with progress the world grows psychic. What were strained conventions become tangible, everyday facts. The business man is less and less close to brute matter, and through the apparent surrender of individuality he acquires a more and more psychic individuality. Individualism is not extinguished, but is raised to a higher plane. The doctrine of individualism can only mean that, as the world advances, such rearrangements of utilities must take place is to increase rather than diminish personal character.

There is no such thing as absolute property rights. Private property is simply a guaranty by society of a sufficiently long tenure to enable capital to be employed. Hence, the intimate

connection of property and employment. A conquered country like Ireland may be an exception to the benefit of private property ; in fact, in order to secure the benefits of individualism it is necessary sometimes to indulge in a certain amount of protection. Patents and copyrights encourage individual responsibility, and hence risk, differentiation, and progress. This argument is not so convincing in the case of the customs tariff.

The question of over-investment is treated with considerable sympathy for the popular view. To say, as our author does, that a crisis is caused by too little consumption, is apt to mislead the reader into separating consumption from purchasing power. After all, the old explanation of Mill as to circulating and fixed capital is simpler.

Private property is sure to be modified in the future as it has been in the past; but this must not be done arbitrarily.

The institution of private property, capitalist enterprise, and business corporations brings into play new distributive forces, additional to the laws of value which have been seen to be the direct and immediate outcome of competition. These forces may be classed under the head of Combination of Capital (Chapter VI.) The subject is one where Professor Hadley is at home, and his thorough discussion of it will prove a boon to a public which sorely needs enlightenment. The primary object of combination of capital is not to extort fabulous prices but to make prices steady. A price has to go very low in order to drive old concerns out, and very high in order to bring new ones in. This wide fluctuation would be disastrous to all concerned and give no opportunity for systematic exclusion of incompetent persons. The difference in steadiness of price between industries subject to increasing and diminishing returns loses very much in clearness of exposition from lack of the marginal-utility method. It is said to depend not on the nature of the industry, but on whether the capital is fully utilized: full utilization decreases the capital charge but increases current expenses ; hence decreasing returns in industries, like agriculture, where the proportion of current expenses is large.

The qualities of abstinence, patience, and foresight which were indispensable to capitalization are, in a higher degree, indispensable to combination. Precisely to the degree that those qualities are developed in the race, will combination prove beneficial. The charging of abnormally high prices renders state interference necessary, and loss of custom inevitable. It is the presence of habits of calculation and foresight that causes the monopolies of the day to charge reasonable prices. The mediæval state was justified in prescribing tariffs of prices because foresight had not been developed in dealers. Today we cannot dispense with all control of corporations; but too much control of them will neglect the important utility of education in foresight. If we socialistically prevent corporations from all short-sighted acts we shall never educate them to a more long-sighted policy. We are thus furnished a sort of test of state interference: it should be sufficient to prevent great public disaster but not enough to prevent the educational effects of private loss.

Professor Hadley has now said pretty nearly all that was to be said in the economic field upon historical evolution, and we may imagine that he passes with a certain reluctance to those categories whose action and reaction demand a discussion of existing utilities abstracted from their historical justification. It is true that History has established the institutions of Money, Credit, Profits, and Wages; but economics must not only prove that whatever is, is right (with proper reservations), but must also make a complete statement of what is. In fact, this latter duty has heretofore been considered to be all there is in Economics. In entering this field, however, we observe that no mention is made of the permanent categories of Production, Consumption, Exchange, and Distribution, and that, from the four concrete titles adopted, that of Rent is missing.

The discussion of Money (Chapter VII) and especially of Bimetallism is quite thorough. The most important use of money is as cash-reserve. This includes not only bank-reserves, but all amounts of money which the average accidents of trade

require persons to keep by them. This clear statement of the money character approximates it to capital and makes it impossible to confound it with any form of paper currency. The marginal theory of value is here freely and effectively used to show the natural fluctuation in the supply of money, and the present increase of gold production is thus accounted for. The great merit of this discussion is that economic principles are boldly applied to questions of the day in their concrete form. The bimetallic arguments are fairly given, and the question is treated, as it should be, as one of preponderance of arguments. The turning point of the discussion is properly stated to be whether a proposed measure will cause a *sudden* change in prices. Popular fondness for paper money is further discouraged by the statement that the use of credit is not a sign of advancing civilization. Certainly a use of the forms of credit, which is accompanied by constant fluctuation and losses may be a sign of stupidity and of fixed ideas, rather than of adaptability and of progress. Clearing houses are first described and the whole system of domestic and foreign exchange is built up on this basis. The different kinds of banking business and their sources of profit are given, and deposits have properly precedence of notes.

The difficult question of the effect of credit on value of money, which was avoided in the discussion of bimetallism, is here too briefly discussed in a note. The point is practically turned by the suggestion that there is a certain limited range of transactions in which credit may be substituted for money. Professor Hadley does well not to make the monometallist argument turn on money-saving expedients.

The currency system of banking is defended on the general ground that, since notes are founded upon the credit of the banks, while checks are founded upon the credit of bank patrons, a system is preferable which will restrict the better bank credit in times of prosperity when it is not needed, in order to expand it in times of adversity when it is most needed. This position is rather surprising in an out and out individualist. What is meant by a demand for checks in time of crisis? What is then wanted

is bank loans which are never checks but either deposits or notes. The needed expansion of bank credit may perfectly well take place in the form of deposits; nor is it probably true, as Professor Hadley claims, that notes circulate longer than deposits. The peculiar property of deposits is that, though paid off by one bank, they remain a charge against the banks in general.

The argument against government's issue of notes is excellent; such issue injures the government's credit, raises interest on its loans, and makes it liable to be called on to pay in times of crisis, at the very moment when revenue is deficient. These objections apply doubly in time of war.

Private property in capital and in its earnings having been justified historically, the task remains of examining more closely the economic forces which determine the rate of interest. It is not denied outright that there is such an economic category as rent, but it is treated as a theoretical quantity which has no place in the practical world. A political economy which does not treat of rent except by implication is a good deal like Hamlet with the part of Hamlet left out. It is true, says our author, that whenever there is a differential advantage rather than an advantage due to combination, we have a rent rather than a monopoly; but rent is really an incident on the surface of the surplus created by capitalistic enterprise (Chapter IX), and its social importance is diminished by the fact that the losses of landlords obliterate their gains. Hence, the only practical discussion turns about profits and wages. There is in this confident sweeping aside of the delicate and intricate theoretical problems of rent, something of the exaggerated zeal of a proselyte. Professor Marshall has shown with consummate skill the interplay of the forces of rent and of profits in distributing the social surplus and the dissolving line of demarcation between the two. The ideas of rent and surplus being thus intimately connected, it was perhaps to be expected that some one should fix his attention upon the chief characteristic of surplus, *i. e.*, profits, to the exclusion of rent. This, Professor Hadley has done. In combating the single tax theory it is not necessary to prove that there is no social

category of rent. There may be a rent and still a justification for its existence in the risk that landlords run of the depreciation of their property. Professor Hadley is not satisfied with this justification, but practically abolishes the topic of rent.

If rent is to be abolished because we cannot always work out an actual, permanent, and differential surplus, then profits should be abolished also because it may happen that we cannot work out an actual, current, calculated surplus. The fact is (and this involves the most fundamental criticism of Professor Hadley's method) that there may be a social profit, and even a social rent, although at the same time the classes of persons called speculators and landlords may, as a whole, lose as much as they make. It may be that the current gains of society pass over to the wage-earning class; but they are, nevertheless, social profits and must be credited to the category of profits and not to that of wages. If account be not taken of this fact, it becomes impossible to account for progress. Now it is the duty of political economy to account for progress, and it performs this duty by ascertaining a system of economic distribution. A system of distribution shows how it is that social gains and losses are borne by the members of the community, and economists are so optimistic as to find in this system a highly developed tendency towards justice in rewards and punishments. The writer is perfectly well aware of the reason why Professor Hadley rejects economic categories: as a historical evolutionist he is wedded to the actual; if he finds that individuals of a certain nominal class, or social caste, lose on the whole as much as they gain, he wishes to let the fact remain as he finds it and to carefully exclude all acknowledgment that there are *permanent* economic laws which govern, in ultimate appeal, all economic phenomena. As a method of popular exposition, this attachment to fleeting phenomena is admirable; as a method of science, it is one-sided and leads to error.

There is much that is interesting in the account of Profits and Wages. The public utility of capital and of fixed incomes, and

also of the speculator, having been established, the rate of the fixed income is determined by a simple ratio between those speculators who wish to exchange capital for income, and those who wish to exchange income for capital. Interest is the price paid for the control of the necessary capital by those who are setting enterprises on foot. Those speculators who think that interest is going to be higher than the returns from enterprise, become loaners, and those who think that the returns from enterprise will be higher, become borrowers. The weeding out process of those who have miscalculated ensures that the right amount of capital and no more is employed in production, and thus the individualistic idea is again triumphant. Speculators' risk is an incident to progress; and if their miscalculation results in a crisis, they bear the loss until their resources are exhausted. Wages do not fall until after rent and profits have fallen.

Profits are the buffer for risk; they cover the responsibility of economic action. They guarantee wages and pay them in advance; they establish the rate of interest, which is not paid in advance.

One source of confusion in Mill's wages-fund theory is, that while profits are estimated upon the piece system, wages are estimated upon the per capita system. One duty of the speculator (Chap. X) is to express calculations on one basis in terms of the other. The duty of the speculator, as the bearer of risk, inclines us to the wages-fund theory whose primary doctrine is, that wages are paid out of capital. Nevertheless, our author believes that this doctrine requires many modifications. The question of the rate of wages is largely a question as to the consumption of the community. If improvements cheapen articles consumed by laborers, speculators have no course open to them but to reinvest what is thus saved, and the wages-fund doctrine holds true that a rise of profits comes back to laborers in higher wages. If, however, the improvements are in capitalists' luxuries, the probable (?) result will be that capitalists alone will gain. In the latter case the laborer is a mere residual claimant for what is left over by the capitalist, and Walker's theory holds true.

We may be permitted the question whether this is the real meaning of Walker's theory, for, if it is, that theory does not stand in any way in opposition to the wages fund, which makes the reinvestment of profits a working supposition subject to the usual exceptions ; in fact, Mill explains at length the evil effects of the too common habit of *not* re-investing profits. The characteristic points of Walker's theory are, that profits are an element of rent, and that wages determine themselves by the simple test of efficiency, *i. e.*, of product. Here, again, there would be no necessary conflict between Mill and Walker, as it seems to the present writer, were it not that Walker insists upon the priority of profits. Now, the immense importance which Professor Hadley has attributed to the speculator, and the interest which he feels in that economic personage through historical study, has led him to agree with Walker that wages are paid out of product not only in the broad sense that the amount of capital depends upon the productiveness of industry, but also in the narrow and false sense that the anticipation of future product can raise wages. Our author had already twitted Ricardo with his "mistake" in supposing that because it commonly happens in a particular business that a rise of wages is accompanied by a fall of profits, therefore a general rise of wages would be accompanied by a general fall of profits. It is, however, theoretically possible that this should occur; but it is not possible that the anticipation of any future product, however great, can result in the slightest increase in the present supply available for laborers. In a single business this result is not impossible; in the community at large the only possible outcome of such a manœuvre is the inflation of credit, which accompanies every period of speculation, *i. e.*, of attempt to anticipate future product by present wages.

In an admirable discussion, Professor Hadley shows that there is danger to one set of laborers neither from the immigration of an inferior set, nor from the advance of the inferior class into higher ranks. In the former case, the better workmen are simply relieved of the necessity of doing inferior tasks. There is a sort of harmony between the production and consumption of differ-

ent classes of workers; the production of a poor grade of goods is most economically carried on by the employment of cheap labor in large masses. As the standard of consumption improves, the necessity for this sort of production decreases so that if the whole community were raised to a high standard of consumption there would no longer be any need of a low standard of production. This is one of the most admirable educational passages in the whole book.

The limits of an article of the nature of this make it advisable to turn aside from pursuing the development of the train of thought in order to call attention more particularly to a feature of the book to which allusion has already more than once been made. The concreteness of Professor Hadley's method has caused him to abandon the dialectical or analytical system, which regards economic quantities as social rather than personal, and, consequently, also the treatment of those quantities upon marginal principles. Not only is this course consciously pursued, but Professor Hadley is evidently convinced that the methods abandoned are unprofitable. It is true that the book abounds in diagrams illustrative of the resultant forces of production and consumption. The marginal theory of value is briefly explained, so far, at least, as to give a fair notion of marginal utility, but the exposition is always brief, and, except in the case of money, not pushed to practical results. It is impossible to separate his attitude towards categories from that towards the marginal theory in general treatment; and he says directly (§ 162, n.) on the former point, that there is nothing natural in the triple division of land, labor, and capital, any more than in rights to land or corporations. They are static, and their employment as categories assumes absence of progress.

Upon evolutional principles, however, the conclusion seems to be necessary that we cannot avoid for all purposes the methods which Professor Hadley condemns. Men have first an immediate concern in their own private interests; further development awakens their solicitude for the family and tribe. At a further step they identify their interests with those of a social or indus-

trial class; and finally they make abstractions of those motives and forces which work in society whether they be identified with social classes or not. This abstraction has reached its highest form in the marginal method, which allows of the ready analysis of social quantities.

The distinction between utility and usefulness receives scant recognition (§ 92, n. 3) in the statement that "Utility, as the word has been used by writers on economics, means the power of satisfying a temporary desire, rather than the power of doing a permanent good." The student would hardly obtain from this statement a full understanding of utility as an economic conception which has no relation to "usefulness," as employed from a rational or ethical point of view.

It has been mentioned that Prof. Hadley uses the marginal theory with admirable effect in describing the causes which govern the supply of money (§§ 223–228): "The supply and demand of gold money are at an equilibrium when the amount of gold which the individual members of the commercial world find it profitable to hold in the form of productive capital—*i. e.*, money—at a given price level, leaves the remaining supply of gold available for the consumers of such a size that the marginal utility of an ounce of gold used in the arts is exactly equal to the marginal utility of the goods which it will purchase at current prices when used as money." It is then clearly explained how the production of gold and of goods will be so adjusted as to keep their marginal utilities equal: when the marginal utility of gold rises, more will be produced, its utility will fall, and money will become again correspondingly plenty. A complete use of the marginal theory, however, requires the further statement, which is not given, that a restoration of equal marginal utilities does not necessarily mean the restoration of the old prices. This fact may be put more strikingly in the other form that the restoration of the old prices does not restore marginal equality. Moreover, the tendency to a marginal equality of commodities produced in one society and exchanged against each other, is in itself no proof of a tendency in society to work

out justice in deferred payments exclusively through money; nor does the author pretend any such thing. He passes completely by this important point. Each variation in the marginal value of money or commodities makes it necessary for the debtor to return a different amount of money or commodities from that which he borrowed, in order that he may thereby return the original amount of marginal value. The delicate problem as to how much shall be returned is not met satisfactorily by Professor Hadley. His only objection to the tabular standard (§ 230) is not that it seeks to return the same quantity of commodities, but that it involves cumbrous administrative machinery. On the other hand, he espouses with warmth the labor standard. There is, however, little in principle to prefer in the labor standard over and above the commodity standard. There is nothing on the face of it which shows that the debtor should return the product of an equal amount of labor rather than simply an equal amount of products. The wide claims that are constantly made for the labor standard are the result of prejudice rather than of careful analysis, and Professor Hadley has not improved his otherwise strong and comprehensive discussion of the bimetallic question by the introduction of this argument. If A and B constitute a community, they will, at any moment, push their production up to a certain margin. This margin will not remain constant, but will gradually change. If B borrow of A a hundred bushels of wheat, how much shall he return, supposing the common margin to have changed meanwhile? It is evident that neither the one hundred bushels of wheat nor the labor that produced it will now theoretically measure the debt. It is perfectly clear that enough wheat must be returned under the present marginal value of wheat to return the marginal value originally borrowed, or enough labor must be returned to replace the same marginal value.

The author's aversion to marginal categorical reasoning is nowhere more prominent than in the discussion of profits and wages. He says (§ 304, n.) that income cannot be distributed between profits and wages according to the marginal values of

capital and labor, for the reason that every investment presupposes a knowledge of the rate of interest on the part of the speculator. This objection is clearly fallacious. It belongs to the general unwillingness of the author to make use of the system of differentiation except when it has a clearly evolutionary aspect; in other words, a force cannot be at once cause and effect—*sowohl Wirkung wie Ursache*. For an author of the dynamic school this denotes a most static frame of mind. The fact is that the relation between profits and wages must be one of continual action and reaction, and hence of mutual determination. If we wish to examine wages we are permitted to consider profits as determined during a differential of time, and if we wish to examine profits, we are justified in making the same supposition as to wages.

When Walker performed his great service of showing the effect of the efficiency of labor on wages, he had made a fine start towards the real solution of this question, but in the absence of the rudder of marginal value, he bounced onto the Scylla of the rent theory of profits and ricochetted onto the Charybdis of anticipated product—much to the damage of his theory. As we have seen, Professor Hadley's fondness for the subject of speculator's profits has combined with his aversion for differentiation to cause him to do less justice to the elements of truth in the wages-fund theory than it deserves. It is, perhaps, fair to say that in any short period of time speculators have an advantage in the labor market, while in those long periods which are ultimately decisive of economic interests, the standard of living is the settled fact and profits are the residue.

Professor Hadley considers (§ 353) that the economic progress of the community is best tested by its consumption. Cheapening of products results, on the whole, in a higher standard of living, but because we look at the matter in this way in each business, it is not conclusive that we should look at it so economically. If all products are cheaper, exchange values remain the same and progress may as well be a question of production, and our author would have reached this con-

clusion if he recognized economic categories apart from social classes.

In his thorough discussion of the question of the customs tariff, Professor Hadley at last recognizes the argumentative force of categorical reasoning, in the shape of Professor Simon N. Patten's argument, that diversification of industries lowers rent; and he meets it by the wholly similar argument, that the tariff decreases the diversification of consumption (§ 486).

The fact that Professor Hadley prefers the term "waste" to "pain" (§ 139, n. 2) is quite characteristic of his concrete method. Waste is more nearly a technical than an economic term. "Utility" is the only purely economic quantity, for it belongs neither to the sphere of matter nor of mind, but to that middle region which is exclusively economic.

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